

The push for a connected economy

The Asean Digital Economy Framework Agreement (Defa) is expected to be a critical tool in advancing Malaysia's digital aspirations, says Minister of Investment, Trade and Industry Tengku Datuk Seri Zafrul Abdul Aziz.

Together with the National Fourth Industrial Revolution (4IR) Policy and the Malaysia Digital Economy Blueprint (MyDigital), Defa holds the potential to propel the country's transformation into a people-centric, digitally driven economy. This strategic alignment is not just pivotal for Malaysia but also promises a ripple effect across Asean, strengthening the region's collective digital economy.

"The Asean Defa will be one of our deliverables to remain relevant and competitive on a global scale as Asean is currently intensifying efforts towards trade digitalisation," says Zafrul in an email interview.

Malaysian businesses, large or small, he adds, can leverage the opportunities offered under Malaysia's 2025 Asean chairmanship. He reiterates that enhanced regional integration, through harmonised trade regulations, streamlined customs and free trade agreements, enables businesses to expand across borders with fewer barriers.

"The potential for digital transformation and innovation offers opportunities to engage in the digital economy, especially in growth areas such as e-commerce, digital financial services and technology innovation. Established corporations can partner with start-ups to create new solutions, improve processes and contribute to an innovative Asean.

"These opportunities also include enhanced funding mechanisms, with Asean's strategic vision opening new funding avenues such as venture capital, grants and loans targeted at technology, green industries and the digital economy," says Zafrul.

The Asean Defa, which is set to be the world's first region-wide digital economy agreement, seeks to integrate Southeast Asia as an innovative, interoperable and investable region. With the road map, Asean member

states are looking to accelerate digital trade, govern data, promote innovation and drive productivity-led inclusive growth.

Once the framework agreement is finalised this year, progressive implementation of the Defa is expected to unlock US\$2 trillion by 2030 in the region's digital economy.

As Asean chair, Malaysia will need to prioritise crafting cohesive and well-coordinated digital policies that promote cross-border and domestic investments, says Marina Che Mokhtar, deals partner, economics and policy, at PwC Malaysia.

Defa's aim to enhance digital cooperation among Asean members, for example, aligns perfectly with initiatives under Malaysia's MyDigital, particularly its focus on incorporating comprehensive digital economy elements in international trade arrangements and cooperation.

A noteworthy development supporting Malaysia's digital aspirations is the burgeoning data centre market in Malaysia, which offers immense potential for regional collaboration on data centre development and connectivity to power emerging technologies such as artificial intelligence (AI), the Internet of Things (IoT) and big data analytics. This positions the country as a regional leader in digital infrastructure.

"There will be avenues for collaboration across the region with the Defa; for instance, in aligning with its aim to accelerate digital integration actions at the regional level, there can be experience sharing on how Malaysia is addressing evolving data privacy concerns through the amendment of the Personal Data Protection Act 2010 to be more closely aligned with international standards for data protection. To safeguard cross-border data transfers, guardrails can be established to ensure that data protection measures are maintained when data is transferred between Asean countries," Marina points out.

Malaysia's digital policies that are investor friendly, in pushing for innovation and equitable access to technology also correspond with MyDigital's focus on empowering micro, small and medium enterprises (MSMEs) to access larger markets — both domestically and internation-



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Marina, PwC

ally — through e-commerce and digital trade, adds Marina.

But for this to happen, the country will need to navigate challenges such as geopolitical tensions and the varying levels of digital maturity within the region.

“To bridge existing disparities around digital infrastructure in the region, Malaysia is investing in improving high-speed broadband as well as 5G networks and cloud computing and AI capabilities. For example, the Jalanan Digital Negara (Jendela) rollout and the establishment of the National AI Office,” says Patrick Tay, deals partner, economics and policy, at PwC Malaysia.

Secondly, regulatory harmonisation is needed to establish a “cohesive” regulatory environment across the region. “To maximise benefits and remove digital trade and investment barriers, Malaysia should look to standardise cross-border digital trade, logistics, data flow and consumer protection to ensure consistent regulation and a stable operating digital ecosystem,” he recommends.

Given the alarming rise in cybercrime and security breaches, it is imperative to strengthen cybersecurity measures. Tay stresses that establishing common protocols for data breach responses as part of efforts to enhance Malaysia’s data protection framework will be crucial for fostering a unified digital economy.

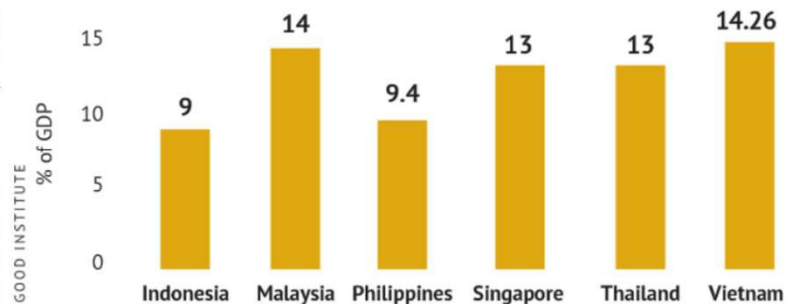
Recent initiatives include the enactment of Malaysia’s Cyber Security Act 2024, specifically designed to safeguard the country’s National Critical Information Infrastructure.

Most importantly, promoting digital skills and literacy is essential, says Tay. Advocating for comprehensive programmes to enhance digital literacy and skills across Asean is vital for empowering MSMEs and start-ups to thrive.

One such initiative is the “AI Untuk Rakyat” programme, endorsed by MyDigital, which seeks to spark interest in science, technology, engineering and mathematics (STEM) subjects and AI-related courses among students. Another notable effort is the National Information Dissemination Centre, established by the Malaysian Communications and Multimedia Commission, which focuses on ensuring equitable digital access for local communities in rural areas.

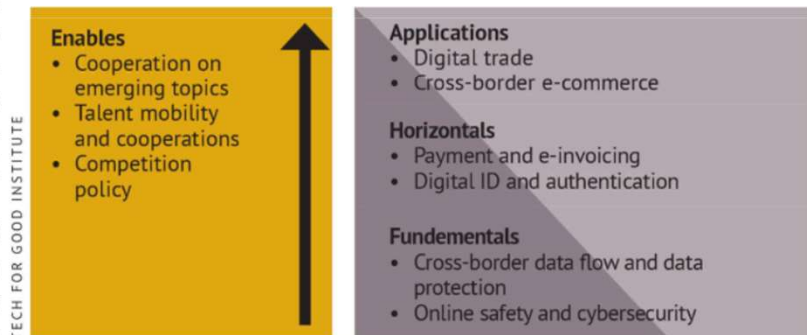
Apart from these initiatives, the government and private entities are also working on reducing barriers to doing business and providing access to digital tools and capital, as

Contribution of the digital economy to total GDP across SEA-6



Note: The figures used are the latest data available from various years: Indonesia (2021), Malaysia (2022), Philippines (2022), Singapore (2020), Thailand (2021) and Vietnam (2022). Data unavailable for Brunei, Cambodia, Laos and Myanmar

Elements of the Asean Digital Economy Framework Agreement



highlighted in the Securities Commission’s five-year roadmap, “Catalysing MSME and MTC Access to the Capital Market”.

This road map, supported by Khazanah Nasional Bhd’s Dana Impak Fund, aims to enhance funding opportunities for MSMEs and mid-tier companies, facilitating their growth and digital transformation.

Through initiatives like the National Fund-of-Funds and the KL20 programme, Malaysia is positioning itself as a destination for early-stage and growth capital, says Marina.

These programmes will not only attract leading start-ups but will also create meaningful job opportunities and foster innovation. The KL20 initiative, for example, aims to establish Malaysia as one of the top 20 start-up ecosystems globally.

“Another important development is the creation of “twin city” partnerships between Asian cities like Hangzhou with Kuala Lumpur, which is expected to facilitate entrepreneur and talent exchange, among other key benefits,” she says.

As the region looks to the future, Defa’s success will depend on collective action and collaboration among member states, she adds.

● By Pathma Subramaniam



PwC

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Tay, PwC